

Subject: Section 201

ATTN: Gloria Blue
Executive Secretary
TPSC
Office of the USTR
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I am writing regarding Section 201.

The American Steel Industry, as we have seen, has done little to consolidate or rationalize. Instead they have continued to over expand and not allow antiquated facilities to close.

Case in point, there has been more than 7 million tons of new hot-dipped galvanizing capacity added since 1995, including approx. 1.5 million tons over the past year, as the market is floundering. The problem is not imports, but rather a case of over capacity within the US.

It should also be noted that 25-30% of all steel imports have been purchased by the domestic steel industry themselves.

I find it ironic that the domestic industry expects restrictions to be placed on their customers, when they themselves have been substantial importers of steel.

It is true that the legacy costs of the integrated mills have substantially placed a sizeable burden on the financial structure of the industry. The mills themselves, along with the United Steel Workers Union pushed for these benefits over the years with no regard to the future consequences.

To say that imports are 100% responsible for the collapse of the domestic steel industry is preposterous and absurd.

Case in point, once again, look at the success of AK Steel; Nucor; Steel Dynamics; Lone Star Steel. They are profitable even in these shaky times.

As you are well aware, the ITC has voted affirmatively on 12 product categories and tied on 4 additional products. Many

of these products within the product categories are:

(1) Slabs

Which are needed by various US Steel companies:

AK Steel

Duferco-Farrell

Lone Star Steel

Oregon Steel

California Steel Industries

Others

These companies must go offshore to support their production due to the inability of securing product within the USA.

(2) Cold Rolled High Carbon

There is only 1 domestic producer of this product (Duferco-Farrell)

Acme Steel the only other producer has filed Chapter 7.

(3) Cold Rolled Hardened and Tempered Steels

There are no integrated or mini-mills capable of producing these steel products.

These are only a few examples of products that could face stiff penalties and should be excluded from any course of action. There are others.

I urge the USTR to inform President Bush to reject the ITC's remedy of action on Section 201. I also urge the USTR to have Mr. Bush continue to work in conjunction with all countries to establish a working understanding, as well as, an acceptable and equitable steel package that would be fair trade for ALL parties. Any rational observer of the US. steel industry must conclude that some of the steel producers lobbying for protection under Section 201 and various dumping suits will never be profitable. If, through protective measures, these steel makers ever achieve profitability, it will be at the great expense of not only US. tax payers, but also other currently profitable manufacturing industries that consume steel. My argument is based on this simple analysis: In its 3rd quarter 2001 results, one of the integrated steel producers posted a \$100 per ton net loss. The average selling price during the period was \$397 per ton. Therefore, holding all other things constant, this producer must achieve an average price increase of 25% in order to break even. How many steel consuming companies can afford this kind of price increase? In the long-run, none of them can. If forced to pay an artificially high price for steel in the short-run, they will begin moving their base of manufacturing operations to other lower cost countries, thereby causing American job losses in the steel consuming industries that would dwarf those at risk in the steel producing industry. Thus

begins the vicious cycle: declining demand leads to over capacity leads to further losses leads to more protection and so on until we are left with a nationalized steel industry attempting to sell much of its capacity overseas to its former U.S.-based customers. So, protection of the US. steel industry will not only fail to solve the problems plaguing the steel producing industry, but will harm the broader economy while making a mockery of our free trade policies.

My solution to this problem is simple: allow the market to determine which mills in the US. should survive and which should fail. Use the money that would otherwise be spent to prop up these mismanaged companies to bolster employee health care benefits and retrain steel industry workers in a profession that has a future.

Respectfully Andrew T Heekin